



Juditor General's Report

Report of the Auditor - General to Eastern Cape Provincial Legislature and Council on the Financial Statement and Performance Information of Port St Johns Local Municipality for the year ended 30 June 2008.

REPORT ON THE FINANCIAL STATEMENT

Introduction

I have audited the accompanying financial statements of the Port St Johns Local Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and the cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, as set out on pages 74-81.

Responsibility of the Accounting Officer for the Financial Statement

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with basis of accounting determined by National Treasury as set out in the summary of significant accounting policies and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:

- Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Selecting and applying appropriate accounting policies
- Making accounting estimates that are reasonable in their circumstances.

Responsibility of the Auditor-General

As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit, 2004 (Act No. 25 of 2004) (PAA) and section 126 (3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the International Standard on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- Appropriateness of accounting policies used
- Reasonableness of accounting estimates made by management
- Overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosure made by the Port St Johns Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of Accounting

The municipality's policy is to prepare financial statements on the basis of accounting determined by National Treasury, as set out in accounting policy note 1.

Basis for Qualified opinion

Basis of Presentation

GRAP, GAMAP and SA GAAP basis of presentation require details of the exemption applicable to the municipality to be provided in the notes to the annual financial statements. The financial statements of the municipality did not fully comply with these disclosure requirements in that the exemptions applicable to the municipality were not adequately disclosed in the notes to the annual financial statements.

Leave Pay Accrual

The municipality relies on its leave register as the primary source for calculating the leave pay accrual and related expenses. Various shortcomings were identified in respect of the register such as, the register did not contain opening balances, leave accrued was not recorded timely, and leave movements were incorrectly captured in the register. As a result, the accuracy and completeness of the closing balance at 30 June 2008 could not be determined.

In addition, the leave pay accrual is also incorrectly disclosed as leave pay provision in note 3 to the financial statements which is in contravention of GAMAP19.15.

The municipality's record did not permit the application of alternative audit procedures.

Consequently, I was unable to obtain sufficient and appropriate audit evidence to satisfy myself as to completeness and valuation of the leave pay accrual as disclosed in note 3 of the financial statements, as well as the completeness and occurrence of employee related costs as disclosed in note 17 of the financial statements.

Consumer Debtors

Sufficient, appropriate audit evidence could not be provided to substantiate the amount of R9.1 million disclosed as consumer debtors at 30 June 2008. An age analysis and reconciliation provided amounted to R8.9 million which did not tie to the consumer debtors balance. No adequate explanation was provided to explain the difference.

As a result of the inadequate records being maintained by the municipality, I was unable to perform alternative audit procedures.

Consequently I an unable to satisfy myself as to completeness and valuation of consumer debtors.

Interest Paid

The amount for interest paid as disclosed on the face of the statement of financial performance indicates an interest amount of R1.7 million, which is R416 306 less than the amount disclosed in note 29. No adequate explanation or documentation was provided to explain the difference. The municipality's record and systems did not permit the application of alternative audit procedures.

Consequently, I was unable to obtain sufficient, appropriate audit to satisfy myself as to occurrence and accuracy of interest paid as disclosed both on the face of the statement of financial performace, as well as in note 19 to the financial statements.

Fruitless and Wasteful Expenditure

The municipality incurred penalties and interest amounting to R863 462 and R564 196 for late submission of returns and/or non contribution of statutory payments in respect of Unemployment Insurance Fund and Skills Development Levies respectively. These penalties are regarded as fruitless and wasteful expenditure.

In addition these penalties and interest were not disclosed in note 24 of the financial statements as fruitless and wasteful expenditure as required by section 125 (2)(d)(i) of the MFMA.

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Port St John Local Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the applicable reporting framework and in the manner required by the MFMA and DORA.

Emphasis of Matter

I draw attention to the following matter:

Going Concern

The municipality is considered to be a going concern risk as it is highly dependent on Government Grants (94% of income for the 2007/08 financial year is government grant funding). In the event that government grants decrease significantly, the municipality may not be able to continue rendering basic services to the community in its jurisdiction.

I further draw attention to the fact that the accounting record of Port St Johns Local Municipality indicates that the municipality operated on an overdraft amounting to R5.8 million as disclosed in note 13 to the financial statements. In addition, the statements of financial performance indicated that the municipality incurred an operating deficit amounting to R3.6 million (after accounting for contributions from future depreciation reserves) for the year under review.

My overall review and assessment of Port St Johns Local Municipality financial statements and accounting records revealed that the municipality will not be in a position to meet its obligations in the foreseeable financial years without additional financial support form government.

This matter was not disclosed in the financial statements.

Amendments to the applicable basis of accounting

Government Notice No. 522 issued in Government Gazette No. 30013 of 29 June 2007, exempted medium capacity municipalities from complying with section 122(3) of the MFMA to the extent that they are required in the preparation of their financial statements to comply with the standards referred to in that section.

The municipality has elected to early adopt those exempt requirements and comply with the standards of GRAP, GAMAP and SA GAAP and to utilize exemptions available to high capacity municipalities as listed in Annexure A of the Gazette.

Other Matters

I draw attention to the following matter(s) that relate to my responsibility in the audit of the financial statements:

Internal Controls

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the adverse opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting Item	Control Environment	Risk Assessment	Control Activities	Information and Communication	Monitoring
Basic of presentation			√		
Leave pay accrual			√		
Consumer debtors	√		√		
Interest paid		√	√		
Fruitless and wasteful expenditure		√	√		

Control environment: establishes the foundation for the internal control systems by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklist, by employees within a process.

Non-compliance with Applicable Legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

Section 67, dealing with the payment of funds to entities other than in the normal course of business transactions, sets out a number of requirements which the municipality is required to enforce on such entities while they are in receipt of funds for the municipality. The municipality failed to formally address many of these requirements in its dealing with other entities.

Section 126(1)(1) requires financial statements for municipalities to be prepared by the accounting officer and submitted for auditing within two months after the end of the financial year to which such financial statements relate (i.e. by 31 August of that year). The financial statements in their final form for the year ended 30 June 2008 were only submitted on 9 February 2009.

Matters of Governance

The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

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The audit committee operates in accordance with approved, written terms of reference		√
Internal Audit		
The municipality had an internal audit function in operation throughout the financial year.		V
The internal audit function operates in terms of an approved internal audit plan.		√
The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		√
Other matters of governance		
The financial statements were submitted for audit as per the legislated deadlines (section 126 of the MFMA).		√
The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		√
The financial statements submitted for audit were subjected to any material amendments resulting from the audit	√	
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		√
The prior year's external audit recommendations have been substantially implemented.	√	
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and relevant provincial treasury before 30 October 2007.		√
The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		√
The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury		√

The municipality had an audit committee in operation throughout the financial year

Yes

No

Matter of Governance

Audit committee

before 31 March 2008.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

I have reviewed the performance information as set out on pages 45 to 70.

Responsibility of the Accounting Officer for the Performance Information

In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipality Systems Act, 200 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008 and section 45 o the MSA.

In terms of the foregoing my engagement included performing procedures and audit, to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below

Audit Findings (Performance Information)

Non-Compliance with Regulatory Requirements

No Performance Appraisal for Section 57employees

The municipality did not have performance appraisals for senior management as required by Section 57 of the Municipal Systems Act, 2000 (Act No. 32 of 2000). Although quarterly performance appraisals were conducted, there is no evidence of these quarterly performance appraisals being performed.

Montoring, Measuring and Review

The requirements for monitoring, measuring and review as stipulated in regulation 13 of the Local Government: Municipal Planning and Performance Management Regulations, 2001, have not been complied with as there were not measurable, realistic and precise key indicators noted during the review of performance information.

No Performance Management System in Place

No PMS is in place and no formally documented process has been adopted. No compliance with chapter 6 of the MSA and Regulation 7.

Lack of Sufficient Appropriate Audit Evidence

Lack of Access to Records

I was unable to obtain sufficient appropriate audit eveidence in relation to the performace information of the Port St Johns Local Municipality, as I was unable to obtain the following records pertaining to the programs/objective/key performance indicators listed below:

- Reports on the maintenance of access roads to health facilities for all months except January and April 2008
- Reports on the revival of the tea production facility for all months except January and April 2008.

Appreciation

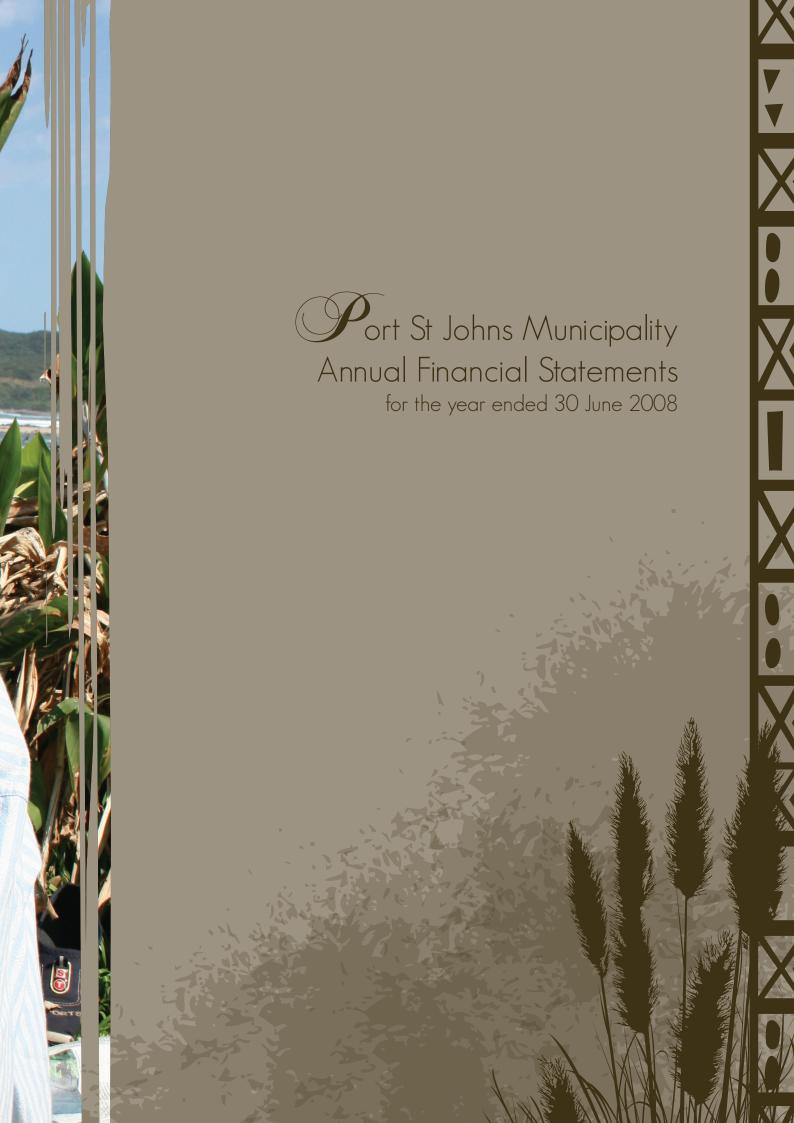
The assistance rendered by the staff of the Port St Johns Municipality during the audit is sincerely appreciated.

East London 08 April 2009



Auditor-General





PORT ST JOHNS LOCAL MUNICIPALITY



Innual Financial Statements
for the year ended
30 June 2008

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 35, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 17 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Z M Hewu Municipal Manager Z Mrwebi Chief Finance Officer



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Statement of Financial Position as at 30 June 2008

	Note	2008	2007
		R	R
Net Assets and Liabilities			
Net assets		31,044,770	35,157,298
Capitalisation reserve		15,072,448	20,893,003
Government grant reserve		8,393,008	6,021,950
Accumulated surplus		7,579,313	8,242,345
Non-current liabilities			
Long-term liabilities	1	-	226,529
Current liabilities		23,360,283	19,821,989
Consumer deposits	2	-	-
Provisions	3	341,410	-
Creditors	4	13,984,796	11,496,255
Unspent conditional grants and receipts	5	3,010,800	-
Bank overdraft	13	5,779,807	8,093,653
Current portion of long-term liabilities	1	243,470	232,081
Total Net Assets and Liabilities		54,405,053	55,205,816
Assets			
Non-current assets		45,932,218	49,732,641
Property, plant and equipment	6	45,932,218	49,660,093
Long-term receivables	7	-	72,548
Current assets		8,472,835	5,473,175
Inventory	8	112,266	-
Consumer debtors	9	3,040,303	3,294,970
Other debtors	10	2,754,282	161,589
Current portion of long-term receivables	7	-	80,544
VAT	11	2,030,980	1,411,274
Call investment deposits	12	532,902	524,189
Bank balances and cash	13	2,102	609
Total Assets		54,405,053	55,205,816

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Port St Johns Municipality

Statement of Financial Performance for the year ended 30 June 2008

	Note	2008	2007
		R	R
Revenue			
Property rates	14	2,889,521	764,056
Service charges - refuse	15	631,997	24,106
Rental of facilities		31,688	26,013
Interest earned - external investments		7,938	53,014
Interest earned - outstanding debtors		15,028	27,431
Fines		74,710	161,630
Licences and permits		61,097	-
Government grants and subsidies	16	32,857,221	36,503,976
Other income		101,433	563,260
Gains on disposal of property, plant and equipm	nent	3,500,000	-
Total Revenue		40,170,633	38,123,486
Expenditure			
Employee related costs	17	16,524,937	15,742,060
Remuneration of Councillors	18	5,016,095	4,692,093
Bad debts		6,075,320	-
Depreciation		1,863,247	1,230,076
Repairs and maintenance		899,918	1,835,087
Interest paid	19	1,738,794	746,176
Local Economic Development Programmes		1,568,369	52,698
General expenses		10,563,944	11,553,012
Total expenditure		44,250,625	35,851,202



Cash Flow Statement for the year ended 30 June 2008

	Note	2008	2007
		R	R
Cash Flow from Operating Activities			
Cash receipts from ratepayers, government and other		36,647,667	38,043,041
Cash paid to suppliers and employees		(37,785,897)	(37,602,038)
Cash (utilised in) / generated by operations	22	(1,138,230)	441,003
Investment income		22,966	80,445
Interest paid		(1,738,794)	(746,176)
Net Cash from Operating Activities		(2,854,059)	(224,728)
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(3,467,909)	(4,371,727)
Proceeds on disposal of property, plant and equipment		8,800,000	-
Decrease in long-term receivables		72,548	25,496
Net Cash from Investing Activities		5,404,639	(4,346,231)
Cash Flows from Financing Activities			
Loans (repaid) / raised		(226,529)	226,529
Net Cash from Financing Activities		(226,529)	226,529
Net Increase / (Decrease) in Cash and Cash		2,324,051	(4,344,430)
Equivalents			
Cash and cash equivalents at the beginning of the year		(7,568,854)	(3,224,424)
Cash and cash equivalents at the end of the year	23	(5,244,803)	(7,568,854)

ort St Johns Municipality Statement of Changes in Net Assets for the year ended 30 June 2008

	Pre-GAMAP	Capitalisation	Government	Revaluation	(Accumulated)	Total
	Reserves and	Reserve	Grant	Reserve	Deficit) /	
	Funds		Reserve		Accumulated	
					Surplus	
2007						
Balance at 01 July 2007	22,490,721	1	1	1	(769/777/6)	12,713,024
Implementation of GAMAP (Note 20)	22,490,721)	21,302,226	1	ı	1,188,495	1
Change in accounting policy owned assets previously unaccounted for	1	ı	1	1	33,581,661	3,581,661
Capital grants used to acquired PPE			2,871,270		(2,871,270)	1
Arrear depreciation financed out of accumulated deficit	1	ı	1	1	(5,834,773)	(5,834,773)
Correction of error - change of closing balances in 2007 (Note21.1)	1	ı	1	1	563,708	563,708
Correction of errors (Note 21.2)	1	ı	1	1	(5,866,322)	(5,866,322)
Capital grant used to purchase PPE	1	ı	3,720,513	1	(3,720,513)	1
Offsetting depreciation	1	(409,223)	(569,833)	_	920'626	1
Balance at 30 June 2007	ı	20,893,003	6,021,950	Ī	8,242,345	35,157,298
2008						
Loss on disposal of property, plant and equipment	1	ı	1	-	(32,536)	(32,536)
Deficit for the year	1	1	1	1	(4,079,992)	(4,079,992)
Capital grants used to acquire PPE	1	1	3,249,743	1	(3,249,743)	1
Transfer from the Capitalisation reserve in lieu of assets disposed	1	(5,300,000)	1	1	2,300,000	1
Offsetting depreciation	1	(520,555)	(878,685)	1	1,399,240	1
	1	15,072,448	8,393,008	ľ	7,579,313	31,044,770



1. Basis Of Presentation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of General.

Notice 991 and 992 of 2005.

The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements		
GRAP 2	Cash Flow Statements		
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors		
GAMAP 4	The Effects of Changes in Foreign Exchange Rates		
GAMAP 6	Consolidated Financial Statements and Accounting for		
	Controlled Entities		
GAMAP 7	Accounting for Investments in Associates		
GAMAP 8	Financial Reporting of Interests in Joint Ventures		
GAMAP 9	Revenue		
GAMAP 12	Inventories		
GAMAP 17	Property, Plant and Equipment		
GAMAP 19	Provisions, Contingent Liabiliities and Contingent Asset		
GAMAP 6, 7 and 8	Have been complied with to the extent that the requirements		
	in these standards relate to the municipality's separate		
	financial statements.		

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP

3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General Notice 552 of 2007 exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual financial statements.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

2. Presentation Currency

These annual financial statements are presented in South African Rand.

3. Reserves

3.1 Capitalisation Reserve

On the implementation of GAMAP / GRAP, the balance of certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a Capitalisation.

Reserve instead of the accumulated surplus in terms of a directive issued by National Treasury. The purpose of this reserve is to promote consumer equity by ensuring that future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus.

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus.

3.2 Government Grant Reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated a transfer is made from the Government Grant to the accumulated surplus. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus.

3.3 Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus. On disposal, the net revaluation surplus is transferred to the accumulated deficit while gains or losses on disposal based on revalued amounts, are credited or charged to the Statement of Financial Performance.

4. Property, Plant and Equipment

Property, plant and equipment is stated cost less accumulated depreciation with an exception of land and buildings which are revalued as indicated below.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

Where impaired land and buildings are revalued, the increase in value of land and buildings are recognised as revenue to the extent that it reverses the impairment loss previously recognised as an expense.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:

Infrastructure	Years	Other	Years
Roads and paving	30	Buildings	30
Housing	30	Specialist vehicles	10
Community		Other vehicles	5
		Office equipment	3-7
Buildings	30	Furniture and fittings	7-10
Recreational facilities	20-30	Specialised plant and equipment	10-15
Landfill sites	15		

The municipality has taken advantage of the exemptions permitted by the Minister of Finance, in terms of General Notice 552 of 2007 and confirmed by Provincial Treasury with respect to property plant and equipment as follows:

GAMAP 17

Paragraphs 59-61 and 77

GAMAP 17

Paragrahps 62 and 77

GAMAP 17

Paragraphs 64-69 75(e)(v)-(vi)

GAMAP 17

Paragraphs 63 and 75 (e) (v)

AC 128

AC 129

Intangible assets

The review of useful lives of property, plant and equipment recognised in the Statement of Financial Position.

The review of the depreciation method applied to property, plant and equipment recognised in the Statement of Financial Position.

Impairment of non-cash generating assets recognised assets recognised in the Statement of Financial Position.

Impairment of cash generating assets recognised in the Statement of Financial Position

Impairment of assets.

The entire standard except for the recognition, measurement and disclosure of the computer software and website costs (AC432) and all other costs were expensed.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

5. Revaluation of Land and Buildings

Land and buildings are stated at revalued amounts, being the fair value at the date of revaluation less subsequent accumulated depreciation in respect of buildings. As a matter of transition, land and buildings (other than community assets) are currently not being depreciated until a sound demarcation of values between the land and buildings' component is ascertained.

6. Landfill Site

The municipality owns and operates a landfill site. In terms of the minimum environmental requirements, the municipality is required to and has an obligation to rehabilitate the landfill site at the end of its economic life span. The municipality's operational policy is to rehabilitate the landfill site every 6 months i.e. twice per year. Consequently, the municipality has no further duty or obligation to create a provision for rehabilitation of the landfill site as such costs are ordinarily being incurred and expensed in the course of normal municipal operations.

7. Investments

Financial instruments which entail short-term deposits invested in registered commercial banks are stated at cost.

The municipality has taken advantage of the exemptions permitted by the Minister of Finance, in terms of General Notice 552 of 2007 and confirmed by Provincial Treasury with respect to investment property as follows:

AC 135 Investment Property - The entire standard to the extent that property is as accounted for in terms of GAMAP 17.

AC 135 Investment Property paragraphs 79 (e) (i) - (iii) - disclosure of the fair value of investment property if the cost model is applied and where the municipality has recognised investment property in terms of this standard.

8. Inventories

Consumable stores and maintenance materials are valued at the lower of cost and net realisable value. The basis of determining cost is the first-in-first out method.

The municipality has taken advantage of the exemptions permitted by the Minister of Finance, in terms of General Notice 552 of 2007 and confirmed by Provincial Treasury with respect to immovable capital assets inventory as follows:

GAMAP 12 - The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP 17.

9. Accounts Receivable

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

10. Trade Creditors

Trade creditors are stated at their nominal value.

11. Revenue Recognition

Revenue is recognised when it is probable that future economic benefits will flow to the municipality and these benefits can be measured reliably.

11.1 Assessment Rates

Assessment rates are levied at an approved annual rate on the value of land and buildings. All rateable properties are charged assessment rates based on the municipal valuation of properties. The revenue is recognised on issue of assessment rates to ratepayers.

11.2 Refuse

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property. Fixed tariffs are determined per category of property usage.

11.3 Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

11.4 Rental income

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

The municipality has taken advantage of the exemptions permitted by the Minister of Finance, in terms of General Notice 552 of 2007 and confirmed by Provincial Treasury with respect to the initial measurement of fair value discounting all future receipts using an imputed rate of interest as follows:

GAMAP 9 Revenue SAICA Circular 09/06 and paragraph 12-initial measurement of fair value discounting all future receipts using and imputed rate of interest.

12. Conditional Grants and Receipts

Revenue from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

13. Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable than an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to to reflect the current best estimate.

14. Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank on bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts expensed as incurred.

15. Unauthorised Expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003).

16. Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Managent Act, the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1988) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

17. Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted as revenue in the Statement of Financial Performance.

18. Comparative Information

18.1 Current Year Comparatives

Budgeted amounts have been included in the annual financial statements for the current financial year only.

18.2 Prior Year Comparatives

When the presentation or classification of items in annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

19. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the municipality at the present value of future minimum lease payments. Such assets are depreciated in terms of the accounting policy on property, plant and equipment stated in item 6 above. The corresponding liability to the lessor is included in the statement of financial position as a finance lease liability. Lease payments are apportioned between finance charges and reduction of lease obligation to achieve a constant rate of interest (effective interest rate method) on the remaining balance of the liability. Finance charges are charged directly against income.

Operating lease payments are recognised as an expense on a straight line basis over the lease terms. Operating lease commitments for the period remaining from the reporting date until the end of the lease contract are disclosed in the body of the financial statements.

20. Retirement Benefits

The municipality operates a defined contribution plan in the form of a provident fund scheme covering employees. The assets of the scheme are held separately from those of the municipality and are administered by the scheme's trustees. Contributions to the defined contribution retirement benefit plan are recognised as an expense when employees have rendered service entitling them to contributions.

21. Borrowing Costs

Borrowing costs are recognised as an expense in the Statement of Financial Performance.

22. Exemptions

The municipality has taken advantage of the exemptions permitted by the Minister of Finance, in terms of General Notice 552 of 2007 and confirmed by Provincial Treasury as follows:

AC 133	Initially measuring financial assets and financial liabilities at fair value.
AC 142	Paragraphs 6-14, 15-29 and 38-42 - classification, measurement and disclosure of
	non-current assets held for sale and discontinued operations.
AC 144	Entire standard.
AC 115	Segment reporting.
AC146	Operating segments.
AC 109	Construction contracts.
AC 140	Business combinations.

23. Events After the Reporting Date

The agency considers events that occur after the reporting date for inclusion in the annual financial statements. Events that occur after the reporting date (30 June 2008) and the date on which the audit of the financial statements is completed (30 November 2008) are considered for inclusion in the annual financial statements.

Port St Johns Municipality

Notes to the Financial Statements for the year ended 30 June 2008

		2008	2007
		R	R
1.	Long-Term Liabilities		
	Capitalised Lease Liability	243,470	458,610
	Less: Current portion transferred to current liabilities	(243,470)	(232,081)
	Total external loans	-	226,529
2.	Consumer Deposits		
	Water and other services	-	-
3.	Provisions		
	Staff leave	341,410	-
	Provision of staff leave represents a sum of the present obligation by the municipality to employees in respect leave due and payable at year end. By its nature it is not possible to estimate with any measure of reasonable accuracy the anticipated timing of utilising the leave provided for, suffice to say it will be utilised during the course of the ensuing year.		
	The movement in staff leave is as follows:		
	Balance at the beginning of the year	-	-
	Transfer from non- current	-	-
	Contributions to provision	341,410	-
	Expenditure incurred	-	-
	Balance at the end of the year	341,410	-
4.	Creditors		
	Trade creditors and accruals	8,731,301	6,017,256
	Payroll creditors	4,961,513	5,465,539
	Other creditors	280,422	-
	Deposits	11,560	13,460
	Balance at the end of the year	13,984,796	11,496,255
5.	Unspent Conditional Grants and Receipts		
	Conditional grants from other spheres of Government Municipal Support Programme - Various	2,305,800	-
	MIG Grant	705,000	-
		3,010,800	-



6. PROPERTY, PLANT AND EQUIPMENT (Reconciliation of Carrying Value)

Description	Land and Buildings	Infrastructure	Community Assets	Capitalised Leased Assets - Motor Vehicles	Other Assets	Total
	R	R	R	R	R	R
Carrying values at 1 July 2007	34,879,819	8,351,813	3,228,603	509,349	2,690,509	49,660,093
Cost	-	6,591,783	-	587,710	6,724,602	13,904,095
Correction of error	-	-	-	-	-	-
Revaluation	34,879,819	5,618,395	5,082,356	-	2,951,340	48,531,910
Accumulated depreciation:	-	(3,858,365)	(1,853,753)	(78,361)	(6,985,433)	(12,775,912)
- Cost	-	(1,306,347)	-	(78,361)	(6,112,926)	(7,497,634)
- Correction of error						
- Revaluation	-	(2,552,018)	(1,853,753)	-	(872,507)	(5,278,278)
Acquisitions	-	-	-	-	218,166	218,166
Capital under construction	-	3,249,743	-	-	-	3,249,743
Depreciation:	-	(1,065,778)	(149,502)	(117,542)	(530,426)	(1,863,248)
- based on cost	-	(878,685)	-	(117,542)	(428,106)	(1,424,333)
- based on revaluation	-	(187,093)	(149,502)	-	(102,320)	(438,915)
Carrying value of disposals:	(5,300,000)	-	-	-	(32,536)	(5,332,536)
Cost/revaluation	(5,300,000)	-			(5,211,761)	(10,511,761)
Accumulated depreciation	-	-			5,179,225	5,179,225
Impairment loss	-	-	-	-	-	-
Cost/revaluation	-	-	-	-		-
Accumulated depreciation	-	-	-	-		-
Other movements						-
Carrying values at 30 June 2008	29,579,819	10,535,778	3,079,101	391,807	2,345,713	45,932,218

Description	Land and Buildings	Infrastructure	Community Assets	Capitalised Leased Assets - Motor Vehicles	Other Assets	Total
	R	R	R	R	R	R
Cost	-	9,841,526	-	587,710	1,731,007	12,160,243
Revaluation	29,579,819	5,618,395	5,082,356	-	2,951,340	43,231,910
Accumulated depreciation:	-	(4,924,143)	(2,003,255)	(195,903)	(2,336,634)	(9,459,935)
- Cost	-	(2,185,032)	-	(195,903)	(1,361,807)	(3,742,742)
- Revaluation	-	(2,739,111)	(2,003,255)	-	(974,827)	(5,717,193)
Carrying values at 1 July 2006	34,879,819	5,201,133	3,378,105	-	3,059,385	46,518,442
Cost	-	2,871,270	-	-	6,661,098	9,532,368
Correction of error	-	-	-	-	-	-
Revaluation	34,879,819	5,618,395	5,082,356	-	2,951,340	48,531,910
Accumulated depreciation:	-	(3,288,532)	(1,704,251)	-	(6,553,053)	(11,545,836)
- Cost	-	(923,607)	-	-	(5,769,276)	(6,692,883)
- Correction of error						-
- Revaluation	-	(2,364,925)	(1,704,251)	-	(783,777)	(4,852,953)
Acquisitions	-	3,720,513	-	587,710	63,504	4,371,727
Capital under construction	-	-	-	-	-	-
Increases/decreases in revaluation	-	-	-	-	-	-
Depreciation:	-	(569,833)	(149,502)	(78,361)	(432,380)	(1,230,076)
- based on cost	-	(382,740)	-	(78,361)	(343,650)	(804,751)
- based on revaluation		(187,093)	(149,502)	-	(88,730)	(425,325)
Carrying value of disposals:	-	-	-	-	-	-
Cost/revaluation						-
Accumulated depreciation						-
Impairment loss	-	-	-	-	-	-
Cost/revaluation		-	-	-		-
Accumulated depreciation		-	-	-		-
Other movements						-
Carrying values at 30 June 2007	34,879,819	8,351,813	3,228,603	509,349	2,690,509	49,660,093
Cost	-	6,591,783	-	587,710	6,724,602	13,904,095
Revaluation	34,879,819	5,618,395	5,082,356	-	2,951,340	48,531,910
Accumulated depreciation:	-	(3,858,365)	(1,853,753)	(78,361)	(6,985,433)	(12,775,912)
- Cost	-	(1,306,347)	-	(78,361)	(6,112,926)	(7,497,634)
- Revaluation	-	(2,552,018)	(1,853,753)	-	(872,507)	(5,278,278)



6. Property, Plant and Equipment

Land and buildings were revalued to fair value using depreciated replacement values. The effective date of revaluation was 01 July 2007. The revaluation was done by Khanyisa Properties and Management Services who are registered independent valuators.

The leased property, plant and equipment is secured as set out in Note 2.

As part of the conversion to GRAP, the municipality has undertaken a comprehensive revaluation whereby the average useful life has been estimated in respect of each category of infrastructure and community assets using the revaluation amounts of land and buildings. With this process an assessment With this process an assessment of the impairment of property, plant and equipment has been done and accordingly impaired assets have been excluded from the revaluation process.

7. Long-Term Receivables

Motor vehicle loans - Managers

Less: Current portion transferred to current receivables

Prior to the promulgation of the MFMA Senior Managers were entitled to car loans. Since then no new loans were issued and the remaining loans being recovered bear interest at 8% per annum and are repayable in monthly instalments totalling R8,170.

8. Inventory

Consumable stores at cost

Maintenance materials at cost

2007	2008
R	R
153,092	-
(80,544)	-
72,548	-
-	74,923
-	37,343
-	112,266

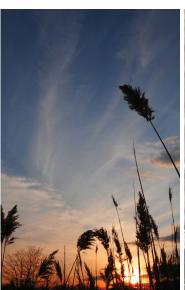
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		2008	2007
		R	R
Consumer Debtors			
	Gross Balance	Provision for Bad Debts	Net Balances
As at 30 June 2008			
Service debtors			
Rates	7,057,855	4,664,266	2,393,589
Refuse	853,618	587,464	266,153
Property lease	1,220,547	839,987	380,560
	9,132,020	6,091,717	3,040,303
As at 30 June 2007			
Service debtors			
Rates	5,322,507	2,775,927	2,546,580
Refuse	643,735	335,737	307,998
Property lease	920,445	480,054	440,392
	6,886,687	3,591,717	3,294,970
Rates: Ageing			
Current (0 - 30 days)		160,372	120,940
31 - 60 days		1,685,143	1,270,809
61 - 90 days		143,992	108,588
91 -120 days		186,213	140,428
121 - 300 days		547,148	412,618
+ 300 days		4,334,987	3,269,123
Total		7,057,855	5,322,507
Refuse: Ageing			
Current (0 - 30 days)		107,068	83,301
31 - 60 days		101,733	79,150
61 - 90 days		51,844	40,335
91 -120 days		50,722	39,463
121 - 270 days		155,202	120,750
+ 270 days		387,049	301,130
Total		853,618	664,128
Property Lease: Ageing			
Current (0 - 30 days)		59,484	46,280
31 - 60 days		1,309	1,018
61 - 90 days		3,185	2,478
91 -120 days		2,617	2,476
121 - 270 days		1,309	1,018
+ 270 days		1,152,643	896,775
Total		1,220,547	949,605
Grand-total Consumer Debtors		9,132,020	6,936,241

9.

		2008	2007
		R	R
10.	Other Debtors		
	Other	2,754,282	161,589
11.	VAT		
	VAT receivable	2,030,980	1,411,274
	VAT is payable on a receipt basis. Only once payment is received from debtors is VAT paid over to SARS.		
12.	Call Investment Deposits		
	Financial Instruments		
	IDP Fund	361	353
	Disaster Fund	348	339
	Aids Awareness Fund	521	510
	Call Deposit	846	826
	Mayoral Discretionary Fund	854	835
	Youth Development Fund	95	93
	Free Basic Services Fund	12	12
	Local Economic Development Fund	867	847
	Standard Bank Revolving Fund	8,103	7,672
	MIG Cheque Account	907	1,566
	Meeg Bank Call Account	488,822	490,398
	Meeg Bank 32 Day Notice Deposit	31,166	20,738
	Investment Call Accounts	532,902	524,189







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		2008	2007
		R	R
13.	Bank, Cash and Overdraft Balances		
	The municipality has the following bank accounts:		
13.1	Current Account (Primary Bank Account)		
	Meeg Bank - Port St Johns Branch - Account Number 4052439958		
	Cash book balance at the beginning of the year - overdrawn	(8,091,826)	(3,784,452)
	Cash book balance at the end of the year - overdrawn	(5,779,807)	(8,091,826)
	Bank statement balance at the beginning of the year - overdrawn	(8,088,648)	(2,881,314)
	Bank statement balance at the end of the year - overdrawn	(5,779,807)	(8,088,648)
12.2	Command Assessed		
13.2	Current Account Standard People Levillieili Account Number 200700007		
	Standard Bank - Lusikisiki - Account Number 280790007	(1.027)	1 222
	Cash book balance at the beginning of the year	(1,827)	1,223
	Cash book balance at the end of the year	1,102	(1,827)
	Bank statement balance at the beginning of the year - overdrawn	(1,827)	1,223
	Bank statement balance at the end of the year	1,102	(1,827)
13.3	Petty Cash Balance	1,000	611
	Bank and cash balance	2,102	611
14.	Property Rates		
	Actual		
	Residential	1,157,874	306,169
	Commercial	786,533	207,977
	State	945,114	249,910
	Total Assessment Rates	2,889,521	764,056
	Property Valuations		
	Residential	41,896,772	9,047,516
	Commercial	28,460,093	6,145,895
	State	34,198,228	7,385,032
	Municipal	7,430,992	1,604,706
	Total Property Valuations	111,986,085	24,183,149
	Valuations on land and buildings are performed every four years. The last		
	valuations on land unid unidings are performed every four years. The last valuation came into effect on 01 July 2007. A general rate of R0.03 is applied to property valuations to determine the assessment rates. Rates are levied on an annual basis on property owners.		

		2008	2007
		R	R
15.	Service Charges		
	Refuse removal	631,997	24,106
16.	Government Grants and Subsidies		
	Equitable share	21,718,987	25,726,000
	Municipal Suppport Programme - Various	300,000	880,000
	Municipal Suppport Programme - Administrative	5,000,000	-
	Municipal Finance Management Grant	500,000	-
	IDP Development Grant	200,000	
	MIG Grant	4,404,234	9,647,976
	MSIG Grant	734,000	-
	Vuna Awards Special Grant	-	250,000
	Total Government Grants and Subsidies	32,857,221	36,503,976
16.1	Equitable share		
	In terms of the Constitution, this grant is used to subsidise the provision		
	of basic services to indigent community members. As part of this		
	service, the municipality provides free basic electricity through a		
	formalised mechanism through Eskom.		
16.2	Municipal Support Programme - Various		
	Balance unspent at the beginning of the year	-	-
	Current year receipts	2,605,800	880,000
	Conditions met - transferred to revenue	(300,000)	(880,000)
	Conditions still to be met - transferred to liabilities	2,305,800	-
16.3	Municipal Support Programme - Administrative		
10.5	Balance unspent at the beginning of the year		_
	Current year receipts	5,000,000	_
	Conditions met - transferred to revenue	(5,000,000)	_
	Conditions still to be met - transferred to liabilities	(3,000,000)	
	conditions sum to be meet durisiented to habilities		
16.4	Municipal Finance Management Grant		
	Balance unspent at the beginning of the year	-	-
	Current year receipts	500,000	-
	Conditions met - transferred to revenue	(500,000)	-
	Conditions still to be met - transferred to liabilities	-	-
16 5	IDP Davidonment - Grant		
16.5	IDP Development - Grant		
	Balance unspent at the beginning of the year	200.000	-
	Current year receipts	200,000	-
	Conditions met - transferred to revenue	(200,000)	
	Conditions still to be met - transferred to liabilities	-	

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	2008	2007
	R	R
Employee Related Costs		
Employee related costs - Salaries and wages	12,847,654	11,973,355
Provident Fund, Medical Aids and SDL	2,694,870	2,649,491
Travel, motor car, accommodation, subsistence		
and other allowances	893,848	1,109,886
Overtime payments	88,565	9,328
Total employee related costs	16,524,937	15,742,060
Remuneration of the Municipal Manager		
Annual remuneration	545,348	502,625
Car allowance	132,502	122,122
Contribution to UIF and related items	1,987	1,831
contribution to oil did reduce terms	679,837	626,578
Remuneration of the Chief Finance Officer		
Annual remuneration	324,718	-
Car allowance	129,346	-
Contribution to UIF and related items	2,636	-
	456,699	-
Remuneration of the Manager - Corporate Services		
Annual remuneration	442,979	408,276
Car allowance	130,486	120,263
Contribution to UIF and related items	2,633	2,427
	576,098	530,966
Remuneration of the Engineering Manager		
Annual remuneration	409,561	377,475
Car allowance	120,827	111,361
Contribution to UIF and related items	3,708 534,095	3,417 492,254
	334,033	772,237
Remuneration of the Local Economic Development Manager		
Annual remuneration	440,515	406,005
Car allowance	130,485	120,263
Contribution to UIF and related items	3,298	3,040
	574,298	529,307

17.

		2008	2007
		R	R
18.	Remuneration of Councillors		
	Mayor	445,847	423,005
	Speaker	356,678	338,404
	Exco members	1,103,467	1,046,932
	Councillors	3,110,103	2,883,752
	Councillors' pension contribution	-	-
	Total Councillors' Remuneration	5,016,095	4,692,093
19.	Interest Paid		
	Finance leases	87,727	73,262
	Bank overdraft	853,605	672,914
	Outstanding payments	1,213,768	
	Total interest on External Borrowings	2,155,100	746,176
20.	Change in Accounting Policy - Implementation of GAMAP		
	The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of GAMAP:		
20.1	Statutory, Trust and Project Funds		
	Balances previously reported:		
	Statutory funds		1,182,279
	Trust funds		2,978
	Projects funds		3,238
	Total		1,188,495
	Implementation of GAMAP Transferred to Accumulated Deficit		1,188,495







20.2	Loans Redeemed and Other Capital Receipts	
20.2		21 202 226
	Balances previously reported:	21,302,226
	Implementation of GAMAP	
	Transferred to Government Grant Reserve	21,302,226
20.3	Property, Plant and Equipment	
20.5	Balances previously reported:	
	balances previously reported.	
	Implementation of GAMAP	
	Infrastructure and other assets not recorded now credited to	22 501 661
	the Accumulated Deficit (see 20.5 below)	33,581,661
20.4	Accumulated Depreciation - Previously Reported	
	Implementation of GAMAP	
	Backlog depreciation: Land and Buildings	-
	Backlog depreciation: Infrastructure	-
	Backlog depreciation: Community	-
	Backlog depreciation: Other	5,834,773
	Total Debited to Accumulated Deficit (see 20.5 below)	5,834,773
20.5	Accumulated (Deficit) / Surplus	
20.3	Previously reported balance - accumulated deficit (30 June 2007)	(9,777,697)
	Transferred from statutory, project and trust funds (note 20.1)	1,188,495
	Transferred from loans redeemed and other capital receipts	979,056
	Capital grant used to acquire PPE	(6,591,783)
	Fair value of property, plant and equipment previously not recorded	(0,551,765)
	(note 20.3)	33,581,661
	Backlog depreciation (note 20.4)	(5,834,773)
	Correction of prior period errors (note 21)	(5,302,614)
	Revised Closing Balance - 30 June 2007	8,242,345
21.	Correction of Error	
	During the year ended 30 June 2007 a number of statement of financial position items were misstated in the annual financial statements as	
	follows:	
21.1	A number of account balances in the statement of financial position, were discovered to be inaccurate post the	
	conclusion of the financial statements and could therefore	
	not be corrected. The comparative amounts have been restated as follows:	
		127077
	VAT refundable previously understated Loan from the managers' pension fund brought forward from prior	127,077
	years yet settled from pension fund proceeds in the past without the	(880,000)
	elimination of the receivable	

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	2008	2007
	R	R
Payroll suspense account subsequently cleared		(50,595)
Short-term investments and cash balances previously misstated		110
Correction of a payment previously duplicated in the main bank account		718,561
2006 accruals previously not reversed, now reversed		648,555
Net effect on (deficit) / surplus		563,708
21.2 Correction of further errors in 2007. The comparative amounts have been restated as follows:		
A number of substantial invoices owing and overdue at 30 June 2007 were neither presented for payment by there perspective suppliers nor accrued for at year end		(3,696,749)
Staff deductions with a credit balance written back to the accumulated deficit		168,808
An unkown liability going back a number of years and reportedly owing to the District Municipality yet unkown to both parties		75,883
Sub-total carried forward		(3,452,059)
Sub-total brought forward		(3,452,059)
Water debtors transferred to O.R. Tambo in prior years without effecting the accounting entries		(2,731,075)
Related water deposit suspense account also transferred in prior years		1,032,956
Penalties and interest incurred on employees tax owing for 2007 and prior		(636,435)
Stale cheques brought forward from prior year written back		22,147
Past management loans (motor vehicle financing) settled by insurance in prior years after vehicles written off in accidents, yet entries never effected in the general ledger.		(101,856)
Net Effect on (Deficit) / Surplus		(5,866,322)

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		2008	2007
		R	R
22.	Cash (Utilised In) / Generated by Operations		
	(Deficit) / surplus for the year	(4,079,992)	2,272,284
	Adjustment for:		
	Depreciation	1,863,247	1,230,076
	Gain on disposal of property, plant and equipment	(3,500,000)	-
	Net effect of recognition of property, plant and equipment		(2,994,865)
	Correction of prior year errors	-	(5,302,614)
	Investment income	(22,966)	(80,445)
	Interest paid	1,738,794	746,176
	Operating deficit before working capital changes:	(4,000,916)	(4,129,388)
	Increase in inventories	(112,266)	-
	Decrease in consumer debtors	254,667	12,006
	(Increase) / decrease in other debtors	(2,592,693)	1,484,352
	Increase in conditional grants and receipts	3,010,800	-
	Increase in creditors	2,488,541	2,801,191
	Increase in provisions	341,410	-
	Increase in VAT refundable	(619,706)	(219,888)
	Increase in current portion of long-term liabilities	11,389	214,458
	Decrease in short-term portion of long-term receivables	80,544	278,272
	Cash (utilised in) / generated by operations	(1,138,230)	441,003
23.	Cash and Cash Equivalents		
	Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:		
	Bank balances and cash	2,102	609
	Call investment deposits	532,902	524,189
	Bank overdraft	(5,779,807)	(8,093,653)
	Total Cash and Cash Equivalents	(5,244,803)	(7,568,855)

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			2008	2007
			R	R
24.	Unauthorised, Irregular, Fruitl Disallowed	ess and Wasteful Expenditure		
24.1	Unauthorised expenditure			
	Reconciliation of unauthorised expe	nditure:		
	Opening balance		-	-
	Unauthorised expenditure current ye	ear	-	-
	Approved by Council or condoned		-	-
	Transfer to receivables for recovery		-	-
	Unauthorised expenditure aw	aiting authorisation	-	-
	Incident	Disciplinary steps / criminal proceedings		
	N/A	N/A		
	Fruitless and wasteful expenditure or Condoned or written off by Council Transfer to receivables for recovery Irregular expenditure awaiting		2,024,864 (2,024,864) -	- - -
	Incident	Disciplinary steps / criminal proceedings		
	The municipality has been facing financial difficulties for the last 4 years. As a result, defaulting on payment terms has not been avoidable. However, in the year under review the municipality has settled the pension liability, a substantial number of creditors hence the significant interest paid and we continue to be up to date with regards to current pension contributions for example. Negotiations to waive penalties and interest are ongoing.	N/A		

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24.3	Irregular Expenditure
	Reconciliation of irregular expenditure:
	Opening balance
	Irregular expenditure current year
	Approved by Council or condoned
	Transfer to receivables for recovery - not condoned

$Irregular\ expenditure\ awaiting\ authorisation$

Incident	Disciplinary steps / criminal proceedings
St Johns Development Agency. This expenditure was specifically approved by the Council as part of the 2007/08 budget, however the municipality did not comply with Section 67 of the MFMA to the fullest. Therefore, notwithstanding this expenditure being fully authorised and the activities of these Local Economic Development Progrommes being closely monitored by the municipality, in terms of the strict application of the MFMA this expenditure is nonetheless regarded as irregular expenditure notwithstanding its authenticity and full approval. In other words, this expenditure is only technically irregular, versus being substantiatively irregular.	N/A

2007	2008
R	R
-	-
-	1,452,953
-	-
-	-
-	1,452,953

		2008	2007
		R	R
25.	Additional Disclosures in Terms of Municipal Finance Management Act		
25.1	Contributions to Organised Local Government		
	Opening balance	-	-
	Council subscriptions	156,971	-
	Amount paid - current year	(73,971)	-
	Amount paid - previous years	-	-
	Balance unpaid (included in creditors)	* 83,000	-
	* The 2008/09 amount of R83, 000 was billed in April 2008		
	hence part of creditors at year end.		
25.2	Audit Fees		
	Opening balance	165,994	-
	Current year audit fee	698,819	165,994
	Amount paid - current year	-	-
	Amount paid - previous years	(165,994)	-
	Balance unpaid (included in creditors)	698,819	165,994
25.3	VAT		
	VAT input receivables are shown in note 11.		
25.4	PAYE, UIF and SDL		
	Opening balance	2,729,369	753,715
	Current year payroll deductions	2,534,650	2,157,286
	Amount paid - current year	-	-
	Amount paid - previous years	(300,220)	(181,632)
	Balance unpaid (included in creditors)	4,963,798	2,729,369







25.5 Lease Commitments

	Commitments in respect of rental agreements:	<1 Year	2-5 Years	TOTAL
a)	KM 1530 multifuction photocopier with serial no 37087245 for 60 months started from 27 March 2006 to 27 February 2011 Monthly rental of R599 ex vat escalate by 15%	10,561	17,603	28,164
b)	IP Pabx Main Unit telephone management system with serial no 4FAVG002946 for 60 months starting from 26 April 2006 to to 1Oct 2011,Monthly rental of R2,564 escalate by 0%	30,769	56,410	87,179
c)	KM 1500 multifuction photocopier with serial no 44448236			
	for 60 months started from 28 October 2004 to 30 September 2010			
	Monthly rental of R408 ex vat escalate by 15%	9,031	2,258	11,289
d)	KM 2530 multifuction photocopier with serial no D3303358 for 60 months started from 1 March 2006 to 30 Apirl 2011 Monthly rental of R3173 ex vat escalate by 15%	55,893	93,157	149,050
e)	KM 2530 multifuction photocopier with serial no AAH3058602 for 60 months started from 1 March 2006 to 30 Apirl 2011 Monthly rental of R3173 ex vat escalate by 15%	55,893	93,157	149,050
		162,146	262,586	424,732

		2008	2007
		R	R
25.6	Additional Disclosures in Terms of Pension and Medical Aid Deductions		
	Opening balance	2,697,859	1,874,661
	Current year payroll deductions and Council contributions	4,497,823	4,450,605
	Amount paid - current year	(2,697,859)	-
	Amount paid - previous years	(4,497,823)	(3,648,390)
	Interest on arrears	-	20,983
	Balance unpaid (included in creditors)	-	2,697,859
26.	Retirement Benefit Information		
	The municipality has a retirement contribution plan to which all qualifying employees belong.		
27.	Contingent Liability		
	None.		
28.	Events after the Reporting Date		
	There are no events subsequent to the reporting date that require reporting.		
29.	Comparison with the Budget		
	The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexure E(1).		

ort St Johns Municipality Appendix A

Schedule of Exter	Schedule of External Loans as at 30 June 2008	une 2008			Redeemed /		Carrying Value	
EXTERNAL LOANS	Loan Number	Redeemable	Balance at 30/06/07	Received during the year	written off during the year	Balance at 30/06/08		Other costs in accordance with the MFMA
			R	æ	X	R	æ	æ
LEASE LIABILITY								
Mercedes Benz ML350	30-1957-2774	30 June 2009	458,610	1	215,140	243,470	391,807	ı







Appendix B - Analysis of Property Plant and Equipment as at 30 June 2008

Land and Buildings 29,110,594 Land and Buildings 29,110,594 Land and Buildings 5,769,225 Infrastructure 34,879,819 Street Lights 5,618,395 Access Roads 6,591,783 Community Assets 12,210,178 Graveyard 117,500	Opening Balance Additions / Revaluation	Under	i						
29 34,8 2 5 5 6 6		Construction	Disposals	Closing alance	Opening Balance	Additions	Disposals	Closing Balance	Value
29 34,8 34,8 12,2									
34,8 34,8 5 5 6 6	- 0,594	1	5,300,000	23,810,594	1	1	1	1	23,810,594
34,8 5 5 6 12,2	5,769,225	1	ı	5,769,225	1	1	1	1	5,769,225
5 6 12,2		•	5,300,000	29,579,819	•	•	-	-	
5 6 12,2	1	839,162	1	839,162	I	1	ı	1	839,162
12,2	5,618,395	ı	1	5,618,395	2,552,017	187,093	1	2,739,110	2,879,285
12,2		2,410,581	ı	9,002,364	1,306,347	878,685	1	2,185,032	6,817,332
		3,249,743	•	15,459,921	3,858,365		•	4,924,142	10,535,779
		1	1	117,500	1	'	1	1	117,500
Recreation Grounds 475	475,320	1	1	475,320	1	ı	1	1	475,320
Community Halls 4,489	4,489,536	ı	1	4,489,536	1,853,753	149,502	1	2,003,255	2,486,281
5,082,356	2356	•	-	5,082,356	1,853,753	149,502	-	2,003,255	3,079,101
Leased Assets Motor Vehicles		ı	'	587,710	78,361	117,542	1	195,903	391,807
Other Assets									
Landfill Site 1,131		ı	1	1,131,232	188,350	37,670	1	226,020	905,212
Furniture and Fittings	973,050 24,169	ı	304,466	692,753	601,725	69,197	360,260	310,662	382,091
		ı	1	1,291,800	516,720	129,180	1	645,900	645,900
Motor Vehicles 5,612	5,612,632	1	4,662,016	950,616	5,268,283	190,123	4,662,016	796,390	154,226
Tools and Equipment	- 41,400	ı	1	41,400	21,525	6,210	1	27,735	13,665
	- 59,400	ı	1	59,400	59,394	1	1	59,394	9
Traffic and other Equipment	- 68,850	ı	1	68,850	ı	3,661	1	3,661	62,189
Computer Equipment 566	566,428 125,147	1	245,279	446,296	329,436	94,385	156,949	266,872	179,424
9,675,942	,942 218,166	-	5,211,761	4,682,347	6,985,433	530,426	5,179,225	2,336,634	2,345,713
62,436,005	5,005 218,166	3,249,743	10,511,761	55,392,153	12,775,912		5,179,225	9,459,934	45,932,219

Port St Johns Municipality

Appendix E(1) - Actual versus Budget (Revenue and Expenditure) for the year ended 30 June 2008

Revenue	2008 Actual	2008 Budget	2008 Variance	2008 Variance %	Explanation of Significant Variances
Property Rates	2,889,521	6,500,000	(3,610,479)	-56%	The budget included additional revenue anticipated from consumer debtors.
Service Charges - refuse	631,997	501,660	130,337	26%	
Rental of Facilities	31,688	120,000	(88,312)	-74%	
Interest Earned on External Investments	7,938	-	7,938	100%	
Interest Earned on Outstanding Debtors	15,028	-	15,028	100%	
Fines	74,710	-	74,710	100%	
Licences and Permits	61,097	40,000	21,097	53%	
Government Grants and Subsidies	32,857,221	31,955,686	901,535	3%	
Other income	101,433	19,356,060	(19,254,627)	-99%	Budgeted income includes approximately R18m worth of revenue that was anticipated from the disposal of fixed assets.
Gains on Disposal of Property, Plant and Equipment	3,500,000	-	3,500,000	100%	
Total Revenue	40,170,633	58,473,406		-31%	
Expenditure					
Executive and Council	7,945,197	12,275,776	4,330,579	35%	
Corporate Services	10,821,220	8,346,301	(2,474,919)	-30%	
Budget and Treasury	13,760,897	3,938,625	(9,822,272)	-249%	
Local Economic Development	3,230,707	6,085,517	2,854,810	47%	
Engineering and Planning	5,112,379	19,448,864	14,336,485	74%	
Community and Social Services	3,380,225	8,378,324	4,998,099	60%	
Total Expenditure	44,250,625	58,473,407	14,222,782	24%	
Net Deficit for the Year	4,079,992)	(1)	(4,079,991)	-100%	